GOVERNMENT OF INDIA
PLANNING
LOK SABHA

UNSTARRED QUESTION NO:3319
ANSWERED ON:17.08.2005
NATIONAL DEVELOPMENT COUNCIL MEETING
Acharia Shri Basudeb

Will the Minister of PLANNING be pleased to state:

(a) whether a number of States have voiced their apprehension over the issue of market borrowings at the meeting of National Development Council held recently in Delhi;

(b) if so, the details thereof; and

(c) the reaction of the Union Government thereto?

Answer

MINISTER OF STATE IN THE MINISTRY OF PLANNING (SHRI M.V. RAJASEKHARAN)

(a): Yes, Sir.

(b): States have raised a number of concerns regarding raising the loan component of Central assistance directly from the market. Some States wanted this to be introduced after advance preparation. Others wished that the matter had been discussed with them before the new policy was introduced. It was also felt that Government of India should extend loans at rates equal to those of treasury bills to States unable to raise market loans directly due to any reason. Some States wished the existing method of Central assistance to continue. There was support also for direct market borrowings in lieu of Central loans provided Government of India offered assistance to States if there is a shortfall. It was feared that the shorter maturity period and bullet payment requirements of market borrowings could neutralize the repayment relief obtained by States through re-schedulement of loans as recommended by the Twelfth Finance Commission. The shorter maturity period of market borrowings compared to Central loans could lead also to additional fiscal stress. A suggestion was made that the Centre should borrow from the market on behalf of States and pass on assistance to them at market rates.

(c): The Union government has brought about changes in the loan component of the Central assistance mechanism of funding State Plans as recommended by the Twelfth Finance Commission. However, for fiscally weak States, the Ministry of Finance will continue to raise market borrowings and provide the support required during the transition period. Other States could borrow within permissible borrowing limits, in consultation with Ministry of Finance and Reserve Bank of India, but if there is difficulty Ministry of Finance will borrow for them as the need arises.